



Business Advisory Council

Meeting Minutes
October 19, 2011, 9:30 a.m. – Noon
Liquor Control Board
Headquarters Office
3000 Pacific Avenue S.E.
Olympia, WA 98501

Business Advisory Council Members in Attendance:

Council Members: Anthony Anton - WRA Jeff Barr, DRAW T.K. Bentler - WANS Jan Gee - WA Food Industry John Guadnola – WA Beer and Wine Dist Association Jeannie Lee - KAGRO Heather McClung - WA Brewers Guild	Liquor Control Board: Ruthann Kurose, Board Member Chris Marr, Board Member Rick Garza, Deputy Director
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Also in Attendance:

Phil Wayt, Washington Beer and Wine Wholesalers Association, Julia Clark, Washington Restaurant Association; Danielle Cross, Nooksack Tribe; Dave Ducharme, DISCUS; Carrie Tellefson, DRAW; Greg Hanon, Costco/Communico, Lance Hastings, Miller Coors, John Bell, Family Wineries of WA State, Holly Chisa, NW Grocer's Association, and Scott Hazlegrove, Wine Institute. Liquor Control Board staff present: Brian Smith, Karen McCall, Alan Rathbun, Lisa Reinke, Steve Burnell, and Amber Harris.

Absent: Sharon Foster, Gilbert Canizales, Ted Yi, Theresa Hancock, Katie Jacoy, Adam Smith, Steve Lynn, Bob Kelly, David Bean, Paul Schieck, and Jean Leonard.

Chris Marr, Board Member of the Liquor Control Board welcomed the members of the Business Advisory Council (BAC) and introductions were made by Board Member Marr and each council member.

Rick Garza, Deputy Administrative Director

Rick provided a legislative and rule making update to the members. Rick gave updates on three bills currently moving forward in legislation that had a couple of changes. RCW 66.28, Exception to Tied-House; in that hearing Rick had suggested the Board be given some authority to provide narrow exceptions by rule to the trade practice restriction on money or money's worth issues, a bill was put together with input from the committee. The Governor's office and OFM are looking at these processes. RCW 66.24.350 Snack Bar Liquor License applicants want to serve wine to their customers on their licensed premises, where the snack bar license only allows them to sell beer. There is no food requirement for this liquor license other than snack food. It would be a service to our licensees to allow a snack bar licensee to serve beer and wine for on-premises consumption without the requirement of providing meals.

Amending RCW 66.08.170, would direct that license and permit fees only be used for licensing and enforcement programs of the LCB, including enforcement of liquor laws and rules, applicable to liquor licenses and permits. Liquor license and permit fees are not subject to the distribution specified in RCW 66.08.180. Amending RCW 66.08.180, this proposal would remove licensing and permit fees from the funds distributed to the state toxicology programs, DSHS, University of Washington, Washington State University, and the general fund. Fees would be used only for licensing and enforcement programs of the LCB. Amounts distributed would permanently be set as follows: State Toxicology \$300,000. DSHS \$8,147,000, UW \$527,000, WSU \$351,000 and general fund \$150,000.

Karen McCall, Senior Policy Analyst

Karen provided updates on three open rulemakings to implement 2011 legislation. WAC 314-40, Clubs was revised to remove the cap on non-club member sponsored events. WAC 314-02 revises rules to implement SSB 5788 that gave spirit/beer/wine/restaurants and hotels the ability to sell growlers. New rules were drafted to implement SSB5156 to create a new liquor license for VIP airport lounges. Rules were revised to implement HB 1465 to give beer/wine specialty shops the ability to sell growlers and changed the licensee fees back to the 2009 fee due to the temporary increase not being continued. WAC 314-44 revised rules for licensed agents to implement SSB 5788 to give wineries and their employees an exception from the authorized agents' license. Two open rulemakings occurred as a result of stakeholder petitions. They included WAC 314-11-015 to allow entertainers to drink while performing. In the case of WAC 314-11-070, the city of Seattle submitted a petition to the Board to allow a local government to establish extended hours of service areas within their jurisdiction.

Distribution Center RFP Update

Rick Garza, Deputy Administrative Director provided an update on the request for proposal (RFP) timeline. The process began June 15, 2011 when Gov. Gregoire signed engrossed SSB 5942. The drafting took place from June 15 to August 8, 2011. A public hearing was held on August 22, 2011, and the issuance of the RFP took place around September 1, 2011. There was a question and answer period that took place from September 2 to September 22, 2011, and the RFP proposals were due to OFM by September 29, 2011. The evaluation period will be from September 30 to October 28, 2011. On November 2, 2011, OFM will announce a successful bidder and a protest period begin starting November 3, 2011, ending on November 9, 2011. The Liquor Control Board has up to 60 days from the date of the recommendation to accept or reject the proposal. Two companies have provided proposals to OFM but because this is a closed process, the information cannot be shared and will remain private until the contract is closed.

2011 Wine Forum

Rick Garza, Deputy Administrative Director, provided information on the Wine Forums that took place in September across the state. This was the first time the Liquor Control Board conducted events like these. The cities included Spokane, Walla Walla, Woodinville, Grandview and Olympia. This was done in the past with the Wine Institute; however, the Board decided to reach out to other stakeholders. Two hundred and fifty wineries throughout the state participated; all or some of the Board Members attended all of the meetings. The agency has struggled with the current definition of a winery and found that some wineries in the Walla Walla area, from the Board's perspective, were not meeting the intent of their winery license, which states that they must produce on the licensed premises. It was found that some wineries were under contracts with other wineries to produce for them and then bring that labeled wine to their premises, which would be in conflict of state and federal permits. Holding a winery license allows the wineries a lot of retail privileges and other privileges.

The Enforcement Division found that several wineries were not meeting that requirement. There was a moratorium on enforcement actions to work with the industry. Two years have passed since then and the wineries were brought together to talk about possibly replicating what they have in California, where they have a winery license and a negociant license or a wholesalers license where a non-winery could hold a label and have distribution and retail rights to sell that wine. This would fit well with the federal permits and has been upheld by the courts in California. They met with all the wineries to talk about the idea of separating the licenses. The concern from those wineries that may not be meeting the intent today is that they would lose many of their privileges that they have under the winery license currently. A proposal will be put together by Board in the next month that will probably create two separate licenses. There was an educational process through all of the forums with good feedback from the wineries. A bill will be brought forward in January 2012 that breaks them up, giving the other license the ability to have some retail privileges.

Special Occasion licenses have been problematic over the years regarding what wineries can do at special occasion events. These can total over three thousand a year. They are looking at possibly doing something with legislation in 2013. Also, discussed again were tied house and money's worth; the wineries were asked what they thought of the legislation currently to amend that to allow the Board to make exceptions. Data was collected through a survey of those that participated in the forums and it revealed that 88% were in support of the allowing the Board to provide narrow exceptions to tied house by rule.

Feedback was that it would be difficult for the wineries to get out every year and participate; it was suggested that they do this every other year. The regional director of TTB came to share with them why it is important for the permit requirement.

Roundtable

TK Bentler: Two issues were raised from the Brewers Guild regarding private labeling. The current bill is being drafted to allow private brewers and domestic brewers to do private labeling. Heather stated that the wineries have the privilege but breweries do not. This allows transparency to consumers to know what the brewer is selling at a restaurant.

The second issue that they are looking at is a bill being commissioned through the Beer Commission and Department of Agriculture. They are looking for opportunities to raise revenue. Currently the Beer Commission's revenue is generated either by dues from microbreweries and domestic breweries in Washington and some of the beer festivals that LCB allowed them to do throughout the year. Those are really the only two revenue sources. What they want to do is allow marketing of microbreweries. An example would be a punch card that allows dinner and a visit to a microbrewery for consumers. The beer commission would be the recipient of promotional revenue. The plan is to have these two bills drafted by early January. Another issue in the future for the microbreweries is to look at the beer and wine specialty license as it relates to selling growlers. Also, look at allowing C-stores to sell growlers.

Jeannie Lee: She introduced a Korean culture presentation to the vendors. She had question regarding I-1183 regarding boundaries and the trade area issue.

Rick Garza commented on that the term trade area is not well defined in Initiative 1183. If the initiative passes, then the Board would have to determine what a trade area is. The Legislature could also define what the trade area is.

Carrie Tellefson: DRAW will be on the defense and watching budget issues, RFP and the initiative and then figure out where they are after that time. Their lobbying day on the hill will be January 24, 2012. They will also be talking to legislators about sampling. Working with the legislators on a sampling program, they will run a bill in the long session.

Julia Clark: they will be following LCB on tied-house legislation and co-branding. They will stay in close communication and help when they can.

Heather McClung: Looking into amending RCW that holds them responsible for distributor conduct and they want to tweak this to work on it.

Phil Wayt: Will look closer at tied-house exceptions legislation.

John Bell: Family Wineries will continue to push for justification of the annual reporting. He also addressed payment parity COD rules, tied house and money's worth rules, as well as to educate people on our craft winery and the difference between small craft wineries and large wineries.

Anthony Anton: Food prices have gone up and customers refuse to pay more. Reservations are slow for holidays; this is a time where they make money to survive, but they are not coming in early like last year.

LCB Division Updates:

Steve Burnell, Business Enterprise

They have standardized store hours for all state liquor stores. Distribution Center RFP was already discussed. The premier store is showing to be a great success; this was a big project for their team. The displays and visual media have been very well received. A PowerPoint slide show was given to show the premier store. There are currently six contract liquor store recruitments in process. Gift packaging is already in liquor stores and getting ready for holidays.

Meeting adjourned at 11:00 a.m.

Handouts:

1. Legislative and Rulemaking Update
2. Distribution Center RFP Timeline